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STATE INSURANCE IN NEW ZEALAND.

BY W. P. REEVES, HIGH COMMISSIONER OF NEW ZEALAND
IN ENGLAND.

It is many years since the Government of New Zealand embarked in the business of insurance. That is literally what it did. More than one branch of State Insurance is in full operation in the colony. But, when I speak of State Insurance, my readers must not expect any such vast national schemes of compulsory and organized provision against sickness, accident and old age as are to be found at work, more or less successfully, in Germany, Austria, Belgium and elsewhere. There is an Old Age Pension Law in New Zealand, but it has nothing to do with Government Insurance. There is a Workmen's Compensation Act, similar to the well-known English statute; but the connection of that with the Department of State Insurance is purely voluntary. State Insurance in New Zealand simply means that the Government has set up three offices dealing, respectively, with the business of life - insurance, accident - insurance and fire - insurance. The fire-insurance office, which is the youngest of the three, has no connection with the other two. In no case does the Government seek to establish any monopoly. All three offices compete on equal terms in the open market with private companies engaged in insurance. And so far has the entry of Government into the business of insurance been from extinguishing private enterprise that the latter has advanced, developed and prospered alongside of the growth of the Government establishments. This is the more remarkable because, in one respect, the Government does not try to do business on business principles: it does not attempt to make any direct revenue out of its insurance offices. It is satisfied to incur no loss on them, and to see that their methods and assets are sound enough to bear the strictest

actuarial investigation. After solvency has been assured and the actuaries satisfied, profits fairly remaining for distribution are divided among policy-holders.

Of the three branches of Government Insurance the most interesting is that of life-insurance, because that has had much the longest career and is able to show results which place it beyond serious criticism. The branch which offers least scope for comment is that of accident-insurance. The Fire-Insurance Office represents the youngest, most venturesome and most bitterly attacked of the three experiments.

To speak first of life-insurance. For its origin we have to go back to the day of small things, and to a very dark hour in the story of the colony. In the year 1869, the population of New Zealand, which is now 920,000, was under a quarter of a million. This scanty number had been fighting with the native tribes, not always successfully, for some nine years. The price of the settlers' one important export—wool—was ruinously low. They had managed to run up a public debt of nearly seven millions, and for this sum had comparatively little to show in the way of development or tangible assets. It was not a moment when they might be expected to dream of venturing into unknown waters, or of new conquests for State enterprise. Yet that was the moment chosen by the active brain of a Jewish politician for inducing the New-Zealanders to launch out into State Life-Insurance. Mr., afterwards Sir, Julius Vogel persuaded the House of Representatives to vote for a resolution involving the creation of a State Life-Insurance Office. Vogel was no socialist, nor indeed a disciple of any special cult or theory. He was a financier, and a venturesome one at that. But, looking round him in New Zealand in 1869, he saw no life-insurance company fully established in the country. Several English and Australian companies had agencies in the colony. Policies might be taken out with them, but each transaction had to be referred to headquarters in Australia or England, and might be disallowed there. Moreover, premiums and charges were high. New-Zealanders, as results have shown, were and are people more than usually inclined to the prudence which takes the form of insurance. But the capital, population and organizing force required to enable them to found a strong private insurance society did not exist among them in 1869. So Vogel, though only a simple member of an Opposition,

found no difficulty in carrying his resolution invoking the intervention of the State. Indeed, Sir John Hall, afterwards leader of the New Zealand Conservatives, supported him. When, shortly afterwards, Vogel became Colonial Treasurer, he had no difficulty in passing an Insurance Act and setting up a Life-Insurance Office. In 1870, then, this institution began its career. So tentative was the experiment that the framers of the original statute had not troubled themselves to make provision for the distribution of profits. But though rates, fees and charges came down, profits, and very considerable profits, accrued; and, by 1874, it was necessary to pass an Act dealing with them and also to extend the powers of the Insurance Office and expand the scope of its transactions. At the end of the first year of its life, the sum assured in the office was a little over £200,000. In five years, it was not far short of two millions, and, at the end of ten years, was approaching four millions and a half. Its twentieth year saw the sum assured in it exceed seven millions and a half, and at the end of 1904, nearly thirty-five years after its birth, the total had grown to more than ten millions and a quarter. The policies in force numbered 44,194. As already mentioned, this large business has not been gained by the exclusion of private competitors from the field. The Government Office does nearly, but not quite, half the life-insurance of the colony. Its chief rival is that wealthy and admittedly well-managed institution, The Australian Mutual Provident Society. The New York Life Insurance Company and the Equitable Life Assurance Society of the United States both do business in the colony, though in a small way.

The Government Life-Insurance Office is a department of the public service, managed by an officer called the Commissioner, who is a Civil Servant. This gentleman's staff and the methods by which the business of his office is conducted are virtually those of an ordinary private insurance association. It is true that the salaries and office expenses of the department are voted annually by Parliament; its accounts are audited by the Government auditor; its balances have to be kept at the bank at which the Public Account is kept. Moreover, the Commissioner has to lay before Parliament an annual report, account and balance sheet. But in the management of the Department's Insurance business there is virtually no ministerial control or political interference. The Commissioner is not a mere departmental secretary, with a min-

ister over him; he performs statutory duties and rules his office. And, inasmuch as the Government makes no direct profit out of the life-insurance business, the institution is, for taxing purposes, treated as though it were a private corporation. It pays land tax and income tax, and in this way contributes £9,000 a year to the revenue.

Independent as the Commissioner is in the management of ordinary insurance business, there is a branch of his department's affairs in which he is subject to control. This relates to the investment of the very considerable funds now in his hands. These have accumulated until, at the end of 1904, the assets of his department amounted to £3,761,000. There is an impression abroad that nearly the whole of this sum has been borrowed by the New Zealand Treasury. That is not the case. Nearly two millions of it are invested in mortgages on freehold property. Loans to policyholders represented last year £660,000, and a substantial sum had been lent on the debentures of local bodies. The loans to the New Zealand Treasury amounted to less than eighteen per cent. of the whole sum invested. New Zealand, like all young countries in course of settlement, stands in need of capital, and has to borrow outside as well as inside her frontiers. Any institution, therefore, which helps to keep the savings of her people at home and available for loan purposes there does a financial service to the colony, in addition to fulfilling the special purpose for which it was founded. It is in the reinvestment of the funds above mentioned that the Life-Insurance Commissioner is subject to control. The reinvesting is managed by a board of six persons, of whom he is one and the Colonial Treasurer another. Every loan has to be agreed to by this board unanimously. No loan must exceed £10,000; mortgage loans must not be of more than three-fifths of the value of the freehold on which they are advanced. Lending appears to have been prudently conducted, for last year the value of the properties on which the department had had to foreclose, and which were lying unsold on its hands, was only about £1,000. This furnishes an edifying contrast to the position of certain great colonial corporations which have lent money on landed estates in Australia and New Zealand.

I will not ask the readers of this article to follow me into the intricacies of the ordinary business of the Life-Insurance Department. They are hardly likely to be interested in knowing the

precise proportion of its death policies, endowment policies, annuities or tontine policies, or the amount of favor which its special temperance division has found in the eyes of insurers. I may mention in passing that the office will not insure any one life for more than £4,000, and that, subject to certain conditions, its policies may not be seized by creditors in the event of the bankruptcy of their holders. The bonuses in force last year represented over a million sterling. The total amount paid since the foundation of the office in 1870, in respect of death claims and matured endowments, has been nearly £2,800,000. The proportion borne by expenses to premium income will not be regarded as excessive (especially in view of recent revelations in New York), for, in 1904, it was but 18.8 per cent. On the whole, the success of the department is admitted even by the most dogged opponents of State enterprise, and the hardest thing I have discovered in the shape of recent criticism of it amounts to this—that in three years, 1901, 1902, 1903, its business (allowing for lapsed policies) did not increase as fast as that of two of its competitors, the Australian Mutual Provident and the National. The year 1904, however, showed a marked improvement in the business of the Government office. One division of the business, however, may interest the servants of Governments in other countries. Under a law which came into force about twelve years ago, most of the officers appointed to the Civil Service of New Zealand have to insure themselves in the Government office. Three per cent. is deducted from their salaries and handed over to the Life-Insurance Commissioner. In return, they receive a policy payable at death should they die before the age of sixty. If they survive until that age, their policies are changed into deferred annuities payable to them each year until death. That is to say, they receive a species of pension. Last year, six hundred and fifty-eight policies were in force in this section assuring nearly £100,000, and entitling the surviving policy-holders at the age of sixty to annuities amounting to over £30,000.

It took more than thirty years of success in working its Life-Insurance Office to embolden the Government of New Zealand to venture into the more doubtful field of accident-insurance. One of the reasons for this may have been the measure of failure which attended many of the accident-insurance companies which did business in New Zealand between 1880 and 1900. In 1899, it

was stated in the House of Representatives that, of twenty-three companies of this description, all but three had either wound up or withdrawn from the colony. It is true that the most glaring examples of failure had been Australian companies which had come to grief in the depression following the collapse of the Melbourne "boom" in 1892. But, though the breakdown or retirement of these companies may have had little or nothing to do with the conditions of accident-insurance in New Zealand, it certainly did not present a record likely to tempt cautious Government officials into the business. What, then, caused the Seddon Government and its advisers to try the venture? The explanation is somewhat interesting. The years 1891 to 1899 saw a series of amendments of the law of compensation to workmen passed by the General Assembly in Wellington. All these increased the liability of employers for accidents to their servants and workers, and the last change placed the colonial law fairly in advance of Mr. Chamberlain's well-known measure. Inevitably, the employers looked to insurance as a means of protecting themselves; and, as early as 1893, the only two accident-insurance companies in the islands were doing a roaring trade and supposed to be reaping handsome profits. After a while, the Government decided to step in as a competitor, both with the view of reducing the rate of premiums paid by the employers, and to secure a portion of an apparently profitable business. Simultaneously, therefore, with the final and most important extension of employer's liability, they proposed to conciliate opposition by passing a State Accident-Insurance act. The year which saw this law put on the statute-book was 1899. Though carried through the House of Representatives by a majority of two to one, it came in for a good deal of keen criticism at the hands of Mr. Duthie and other speakers, who disliked it both as an extension of State enterprise and as associating the Life-Insurance Office, hitherto a sound and popular institution, with a novel and dubious undertaking. The bill provided that the officers of the Life-Insurance Department should conduct the new business. They were to do the work, and, though some payment was to be made to them therefor, this extra labor and responsibility were pronounced by several critics unfair both to them and to the policy-holders in their office. The liberal promises of the Premier of a reduction of thirty per cent. in the rate of premiums were declared illusory, and the fact

was pointed out that the recent appearance on the scene of a fresh competing company had just brought about a sharp fall in these rates.

However, the bill went through, and in due course the Life-Insurance Commissioner, Mr. Richardson, organized this new department. The act constituting this stipulates that the funds, assets and liabilities of the Accident-Insurance Office are to be kept separate and distinct from those of the main Life-Insurance Department. So the policy-holders of the latter have no cause to be apprehensive that any losses incurred in the accident branch will have to be made good by them. Then, as might be expected, Mr. Richardson and his experienced officers have shown themselves quite capable of managing their additional department with prudence and profit. The figures of the three years' accident-insurance business carried on by them lie before me as I write. From these it would seem that in 1902 the office received in premiums a little over £14,000; in 1903, somewhat more than £24,000; and in 1904, a few hundred pounds less than the last-mentioned sum. These receipts have so far exceeded the claims which have had to be paid or provided for that the office has been able to accumulate funds to the amount of £5,600, as well as to hold over £9,000 as "unearned premium reserve." No serious complaint, so far as I have been able to discover, has been made against its methods or management, except that its rates of premiums do not materially differ from those in force when it was opened. The answer to this complaint seems to be that, at or shortly before the sanctioning of the Government scheme by Parliament, competition among the companies had sharply reduced the old rates. It is claimed that the existence of a Government office is at least a guarantee that the rates will not presently be raised by an agreement between the companies. In 1903, the Prime Minister stated that the Government office would neither follow the example of the companies in cutting rates lower nor have anything to do with raising them by combination.

Just as fire-insurance is a less exact and much more hazardous undertaking than life-insurance, so the New Zealand conditions under which the former experiment was resolved on in 1903 were very different from those of the dark days of thirty-five years before. Vogel's proposal commanded unanimous support: Mr. Seddon's was only passed after years of active resistance, re-

sulting in a notable modification of the original plans of his advisers. He had to bring in his fire-insurance bill in face of the fact that there were no less than twenty-six fire-insurance companies doing business in the colony, and that, speaking generally, these were powerful corporations of good repute. Four of them were New Zealand companies,—at any rate, companies with their headquarters in New Zealand,—and among the shareholders of these prosperous bodies hundreds of New Zealand investors were, and are, enrolled. Human nature being what it is, extensive local influence of the insurance societies caused some division of public opinion and did not simplify the task of a Government resolved to make a beginning with State Fire-Insurance. In Parliament there was a genuine feeling that fire-insurance was a risky business. So bills were introduced again and again only to be abandoned. A select committee of the General Assembly, after hearing evidence, presented a report, in 1903, none too favorable to the new departure. There was, nevertheless, a strong and general feeling that some new element of competition should be introduced—this, despite the presence of the twenty-six companies. The position was that the companies were working together under a tariff agreed upon among themselves, a tariff which, as finally settled in 1895, was claimed by them to be scientific, but which the insuring public grumbled at and denounced as severe. The complaints were particularly loud, perhaps, in some of the smaller country towns, but were widespread enough to compel the attention of Parliament and the Ministry. It was averred that improved water-supply and fire-service were being provided in localities whose representatives alleged that corresponding reductions in insurance charges did not quickly follow. Again, it was pointed out that the colony was exceedingly prosperous, and that the business done by the insurance companies was large and increasing. But what weighed even more in the scale was that handsome profits were made and declared by the better-known companies. It is true that the defenders of these asserted that four-fifths of their profits were made out of business outside New Zealand or were yielded by investments. But, very rationally, the public did not scan the source of the dividends with too close an eye. It was sufficient that the profits were there.

On behalf of the companies it is only fair to point out that a table of figures laid before the Parliamentary committee of inquiry

appeared to show that in the five years 1899-1903 they had paid on fire losses in New Zealand no less a sum than £1,395,000. It is true that they had in the same period received not only as large an amount, but some £632,000 more in premiums. But it was asserted on their behalf that, after allowing for fair expenses and reserves for unearned premiums, the insurance companies not only made nothing, but actually lost slightly in that particular quinquennium. Perhaps they did, for one of the years therein was noted for disastrous fires. But in answer to the plea of their friends it was pointed out that, over a long series of years, the companies had done well, as not only their dividends but their substantial reserve funds proved. Moreover, it was alleged that they or most of them had themselves to thank for at least some of their losses.

The following passage from a speech made by a country Member in the House of Representatives on September 1st, 1903, is worth quoting, both because it contains the reply usually made to the argument just given, and because it states the particular grievance urged on behalf of the rural districts. The Member aforesaid, Mr. Thomas Mackenzie, said:

"In many of our cities the rates are reasonable enough on many of the risks, but where the hardship and injustice come in is on the same class of risks in the country districts. The honorable gentleman says that the difference between the town and country rate on brick buildings is 3s. 6d. I suppose that is in a town like Dunedin. You have got to pay 12s. 6d. in Milton and 12s. 6d. in Clutha for brick stores. There the people are handicapped by three times the amount, and yet the honorable gentleman says that no injustice is done. The injustice is against the country people, for their rates are inordinately high. Of course, they say they make large losses in the country; but these losses are greatly brought about through the companies taking risks from persons who have not the best of reputations, and by carelessness in stock inspection."

As an example of how widespread was the feeling of restiveness at the high premiums charged by the combination of Insurance Companies, I may mention that as far back as the year 1896 a meeting of delegates took place representing Fire-Insurance Protective Associations of seven leading New Zealand towns. At this meeting resolutions were passed pointing out that, while insurance was commercially a necessity, it had become, owing to combination among companies conducting it, a monopoly: that State Life-

Insurance had been a success and that, further, the delegates present "representing large interests" unanimously called upon the Government to establish a State Fire-Insurance Office. Furthermore, the meeting urged that the system to be adopted by the Government should be in part at least compulsory.

It took the Government seven years to comply with the demands thus formulated, and even then all compulsion had to be dropped from their scheme. In the debates in Parliament on the Fire-Insurance Bill, as finally shaped, the usual objections were urged to the extension of State influence, the creation of "billets," and to the incurring of further liabilities by the colony and the taxpayer.

On the whole, however, there was a general agreement that no sufficient reason existed why the Government should not manage fire-insurance business successfully, provided that efficient officers were selected and proper care and caution shown. The Government attempted to conciliate support by limiting the capital to be raised to the very modest sum of £100,000, and hinted that not even the whole of this would be required. They, furthermore, promised that half the profits of the business should be returned triennially to the insurers, while the other half should be placed in reserve to strengthen the Office. Mr. Seddon expressly disavowed all intention of waging war to the knife against the companies, only claiming that there was room for a Government Office as well as for them. He laughed at the suggestion that, as soon as the Government had secured the establishment of an Office for voluntary insurance, they would seek to extend their enterprise by introducing an amending Bill, containing the principle of compulsion. To this he referred as the "old bogey."

In conclusion he assured Parliament that the new department should be carefully and wisely administered. Its management would be checked by an Advisory Board, so that no rashness was likely to be shown. Sitting on the Board would be the Commissioner of the Government Life-Insurance Department, associated with whom would be experienced and prudent State Officers. In estimating risks, the Government would have the advantage of information to be obtained from local and borough councils, the fire-brigade officers, and Government officials generally.

As the law establishing the State Fire-Insurance Office stands on the New Zealand statute-book, it confines the business of the

Office to insuring property within the boundaries of the colony of New Zealand; and provides for the appointment of the General Manager and Staff, who are not to be members of the ordinary Civil Service or subject to its rules. The Board consists of the Colonial Treasurer (Mr. Seddon), the Government Life-Insurance Commissioner (Mr. Richardson), the General Manager and two unofficial members; the last two are appointed for two years and are paid. By Clause 30, it is provided that half the net profits of the business are to go to the creation of a Sinking Fund, while by Clause 45 it would appear that the surplus profits—that is, the remaining half—are to be equally divided between the insured and the Reserve Fund. The return made to the insured will take the form of bonuses divided on a basis proportionate to the premiums paid by them.

The bill authorizing the setting up of the State Fire-Insurance Office became law towards the end of 1903, and the Government lost no time in acting upon it. No difficulty was found in enlisting the services of an experienced manager and staff, nor, for the matter of that, in securing business. The public displayed abundant willingness to avail itself of the new means of breaking up the insurance monopoly. Though the management showed proper prudence in considering offers and inspecting risks, I am informed that the risks accepted during the first nine months of the life of the office reached the substantial total of over two millions and a half. The premiums paid in had, by the end of that time, risen to the neighborhood of some £2,000 a month, while the losses incurred were represented by the very moderate sum of £1,200 in all. So far so good. But it cannot be claimed that, as yet, the paths trodden by the young department have been those of pleasantness and peace. Very far from it. The insurance companies, through their local representatives, declared war to the knife upon the unwelcome competitor. They boycotted it, refused to reinsure its risks in the colony, and made things as unpleasant for it as possible in London. The Government was driven to cross the world in order to secure a reinsurance, and only after some display of hesitation did it obtain the needful cover at Lloyd's. The London press was fed with paragraphs of an unfriendly kind. In the colony itself the companies took the extreme step of cutting down the rates upon the description of properties comprised in what is termed "Class W" by thirty-three

and a third per cent. This class comprises dwelling-houses and similarly rated risks. The Government Office, which had not contemplated a greater reduction than ten per cent., was, of course, obliged to keep step with its opponents. (I may mention that rates on other classes of property were lowered by ten per cent.) Nevertheless, disagreeable as embittered competition always is, I am of opinion that the irreconcilable attitude of the companies, while justifiable enough according to ordinary commercial ethics, is scarcely likely either to intimidate Mr. Seddon or to dismay the public of the colony, who are enjoying the benefit of very much lower rates. The amount of business done by the State Fire-Insurance Office may, it is true, be restricted; but its success is not likely to turn upon the friendliness or unfriendliness of competitors so much as upon the amount of care, judgment and caution displayed by its manager, his agents and his advisers.

W. P. REEVES.